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ARIZONA CORPORATION COMMISSION
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January 24, 2002

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VIA HAND DELIVERY

Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

JAN 24 2002

DOCKETED BY	<i>mmg</i>
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Re: *Arizona Electric Power Cooperative, Inc. ("AEPCO") PPFAC Audit*
Docket No. E-01773A-01-0833

Dear Ms. Farmer:

The purpose of this letter is to formalize certain requests which AEPCO has discussed with Staff in relation to its audit of the Purchased Power and Fuel Adjustment Clause ("PPFAC"). These requests are:

1. Cancellation of the current PPFAC and authorization to file an amended tariff reflecting the cancellation and surcharge requested herein.
2. Authorization to explore a revised PPFAC with Staff which could be implemented at a future date; and
3. Authorization of a surcharge in the amount of 2 mills per kWh in connection with cancellation of the current PPFAC to recover the approximately \$8.3 million undercollection in the PPFAC bank as of July 31, 2001.

AEPCO discussed these requests with its members at the December 12, 2001 Board of Directors meeting. A copy of the Board resolution directing AEPCO to seek this relief is attached.

As to the requests to cancel the current PPFAC but authorize exploration of a revised PPFAC in the future, AEPCO has discussed with Staff the reasons why the current PPFAC is mechanically flawed--particularly after AEPCO's restructuring which was authorized in

Decision No. 63868. On a going forward basis, however, the energy markets remain volatile. AEPCO and its members believe that a revised PPFAC to be discussed with Staff and implemented in the future could benefit both AEPCO and its member customers.

In relation to the request for a two mill per kWh surcharge, also attached is a schedule reflecting (1) the accounting concerning the approximately \$8.3 million undercollection from January through July 2001 and (2) calculations concerning the 2 mill surcharge estimated recovery period. Although the undercollection accumulated over only seven months, the projected 27 month recovery period would minimize the impact on the member customers. AEPCO would track the proceeds of the surcharge to assure that no member pays more nor less than its original contribution to the undercollection and would cease the surcharge when the undercollection is recovered. AEPCO would propose to file quarterly accounting reports with Staff on surcharge collections.

Although AEPCO requested and received authorization in Decision No. 63868 to forgive the undercollected balance as of December 31, 2001, its current financial position will not allow another write-off. A combination of events since the filing of the restructuring application in October 2000 contributed to this situation. Because of credit and collection uncertainties, AEPCO ceased most sales to California in December 2000. This reduced income from non-member sales in 2001. Also, unexpected generating unit outages in the Spring of last year forced AEPCO to buy replacement power at the very high prices prevailing at that time. The \$6.2 million entry for purchased power in "May-01" on the attached schedule reflects that result. The effect of these events and others have greatly impacted AEPCO's 2001 financial results. Although books have not yet closed, margin levels are expected to produce only a .99 DSC which is below the required DSC mortgage minimum. In light of this, a further write-off of the undercollected balance can't be justified and would actively work against the margin/equity improvement plan which the Staff and the Commission discussed in Decision No. 64227 dated November 29, 2001.

Pursuant to your November 30 Procedural Order, Staff is currently scheduled to make its recommendations concerning the PPFAC by January 31, 2002. In light of these requests, AEPCO would request that Hearing Division extend this due date to no later than March 5, 2002. However, because these issues do have a substantial impact on AEPCO's 2001 financial statement, AEPCO would request entry of a Commission order, authorizing the relief requested, at its regularly scheduled Open Meeting on March 19, 2002.

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If there are any questions concerning this matter, please contact me. Thank you for your assistance on this matter.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By: 
Michael M. Grant

ORIGINAL and 10 copies filed
with Docket Control this 24th
day of January 2002.

COPY delivered via hand delivery
this 24th day of January 2002 to:

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cc: Dirk Minson (via U.S. mail)
Pat Cooper (via U.S. mail)

MMG/lmm
10421-0029/989157

ARIZONA ELECTRIC POWER COOPERATIVE, INC.
Benson, Arizona

The following resolution was adopted at a **regular meeting** of the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO), held in Benson, Arizona on December 12, 2001.

RESOLUTION

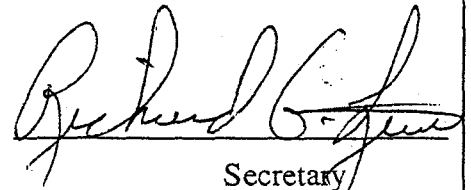
WHEREAS, Management has discussed with the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO) the under collected \$8.2 million balance in the Purchased Power and Fuel Adjustment Clause (PPFAC) as of July 31, 2001 and the fuel cost, purchased power expenses and other factors which caused the under collected balance; and

WHEREAS, Management has also advised the Board concerning AEPCO's current and projected cash and financial position which indicates that it would not be prudent to forgive the under collected balance owed AEPCO by the members; and

WHEREAS, Management has also discussed with the Board several factors which make the current PPFAC difficult to administer and track, but also believes it to be in the future best interest of the cooperative to revise and retain the PPFAC.

NOW, THEREFORE BE IT RESOLVED, that Management is authorized and instructed to seek an order from the Arizona Corporation Commission (1) terminating the existing Purchased Power and Fuel Adjustment Clause; (2) authorizing collection of the \$8.2 million under collected balance as of July 31, 2001 at a rate not to exceed 2 mills per kWh; and (3) authorizing further exploration and implementation of a revised PPFAC for the future.

I, Richard G. Lunt, do hereby certify that I am Secretary of AEPCO, and that the foregoing is a true and correct copy of the Resolution adopted by the Board of Directors at a **regular meeting** held on December 12, 2001.


Secretary

(seal)

Arizona Electric Power Cooperative, Inc.
Purchased Power & Fuel Adjuster Clause
Cost Analysis for the Period January 1, 2001 thru July 31, 2001
including Estimated Recovery Period

A. Cost Analysis for Period 1/1/2001 - 7/31/2001

PPFAC Costs

	<u>Jan-01</u>	<u>Feb-01</u>	<u>Mar-01</u>	<u>Apr-01</u>	<u>May-01</u>	<u>Jun-01</u>	<u>Jul-01</u>	<u>Total</u>
1. Fuel	\$ 5,885,639	\$ 6,100,023	\$ 7,421,190	\$ 6,822,748	\$ 7,565,256	\$ 7,150,862	\$ 5,400,021	\$ 46,345,739
2. Purchased Power	1,596,818	2,739,018	1,319,213	2,649,938	6,210,578	1,816,412	1,845,725	18,177,702
Total Fuel & Purchased Power	\$ 7,482,457	\$ 8,839,041	\$ 8,740,403	\$ 9,472,686	\$ 13,775,834	\$ 8,967,274	\$ 7,245,746	\$ 64,523,441
3. Less: Non-Jurisdictional Contracts	-4,797,770	-6,456,251	-5,707,207	-5,424,825	-8,074,034	-4,633,663	-3,645,425	-38,739,175
Total Jurisdictional Fuel & PP	\$ 2,684,687	\$ 2,382,790	\$ 3,033,196	\$ 4,047,861	\$ 5,701,800	\$ 4,333,611	\$ 3,600,321	\$ 25,784,266
4. Less: Line Losses	-16,716	-21,402	-56,021	-94,945	-193,438	-54,646	-9,925	-447,093
Net Jurisdictional Fuel & PP	\$ 2,667,971	\$ 2,361,388	\$ 2,977,175	\$ 3,952,916	\$ 5,508,362	\$ 4,278,965	\$ 3,590,396	\$ 25,337,173

Base Period Recovered Costs

1. Jurisdictional kWh	130,838,954	112,066,986	116,267,674	116,376,660	153,005,246	178,035,678	187,720,180	994,311,378
2. Base Period Rate	0.017140	0.017140	0.017140	0.017140	0.017140	0.017140	0.017140	0.017140
Total Recovered Costs	\$ 2,242,580	\$ 1,920,828	\$ 1,992,828	\$ 1,994,696	\$ 2,622,510	\$ 3,051,532	\$ 3,217,524	\$ 17,042,497
Total Unrecovered Fuel & Purchased Power	\$ 425,391	\$ 440,560	\$ 984,347	\$ 1,958,220	\$ 2,885,852	\$ 1,227,433	\$ 372,872	\$ 8,294,676
Less: Preapproved DSM Projects	\$ -	\$ (500)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (500)
Cummulative Unrecovered Fuel & PP	\$ 425,391	\$ 865,451	\$ 1,849,798	\$ 3,808,018	\$ 6,693,870	\$ 7,921,304	\$ 8,294,176	\$ 8,294,176

B. Estimated Recovery Period

1. Unrecovered Fuel & Purchased Power (PPFAC) (from above)	\$ 8,294,176
2. Year 2002 Class A Member Estimated MWh's (per 2002 annual budget)	1,816,787
3. Proposed Fuel & Purchased Power Charge per kWh (per AEPCCO Board Resolution)	2 mills
4. Estimated Annual Recovery Amount	\$ 3,633,574

Estimated Recovery Period - years (line 1/line 4)
 Estimated Recovery Period - months

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